

**STATE WATER RESOURCES CONTROL BOARD  
BOARD MEETING -- DIVISION OF FINANCIAL ASSISTANCE  
DECEMBER 4, 2007**

**ITEM 4**

**SUBJECT**

CONSIDERATION OF A RESOLUTION APPROVING A STATE REVOLVING FUND (SRF) LOAN TO CITY OF CHICO (CITY) FOR CONSTRUCTION OF THE WATER POLLUTION CONTROL PLANT (WPCP) 12-MGD EXPANSION PROJECT – PHASE 1 (PROJECT); SRF LOAN PROJECT NO. C-06-4997-110

**DISCUSSION**

The City's WPCP is located approximately four miles to the southwest of downtown Chico. The WPCP provides secondary level wastewater treatment and disposal for domestic wastewater discharges. The influent to the WPCP consists primarily of residential and commercial wastewater discharges with few industrial sources.

In October 2005, the City updated its 1996 Facilities Plan to provide planning information for two anticipated WPCP expansion projects. Based on the projected annual population growth rate established in the 1994 City of Chico General Plan, the City will construct its plant capacity expansion in two stages. The first stage will expand the WPCP capacity from nine million gallons per day (mgd) to 12 mgd, and the second stage will expand to its build out capacity of 15 mgd. The City's first stage of expansion consists of two phases of construction; Phase 1 involves expansion of the treatment plant to 12 mgd, and Phase 2 consists of expansion and relocation of the existing discharge outfall.

The City seeks SRF funding assistance for Phase 1 of the first stage expansion Project. Design and construction of Phase 1 will include treatment capacity for additional wastewater flows from approximately 7,800 dwelling units located in the unincorporated Chico Urban Area as part of the Nitrate Action Plan that will be implemented by Chico Urban Area Joint Powers Financing Authority (JPFA).

The Phase 1 Project will construct the expansion of all processes described below with the exception of solids thickening facilities. The following unit operations require improvements and expansion to attain the interim capacity of 12 mgd, and prepare for the build-out capacity of 15 mgd:

<b>Process</b>	<b>Major Components</b>
Influent Sewers	Influent Sewers and Junction Boxes
Headworks	Influent screening, grit removal, flow metering, odor control, chemical addition
Primary Treatment	Primary effluent pumps
Secondary Treatment	Aeration tanks, secondary clarifiers, return activated sludge pumping, blowers
Chlorination	Chlorine contact tank improvements, outfall gate improvements, hypochlorite improvements, chemical tank replacement
Effluent Disposal	Outfall diffuser and pipeline
Sludge Stabilization	Anaerobic digestion
Sludge Dewatering	Mechanical dewatering, sludge stockpile area
Electrical Power System	Power supply, standby generator, cogeneration
Instrumentation and Control	Instrumentation and control system
Support Facilities	No. 2 water system improvements, No. 3 water pumping, yard piping

Additionally, the City intends to construct a new discharge outfall in late 2008 as Phase 2 of the first stage of expansion, with a SRF Project No. 4997-120. The City will seek a separate SRF Loan application for Phase 2 once all the environmental documents are completed. The existing discharge outfall has a hydraulic capacity equivalent to an average day average month (ADAM) flow rate of 11.6 mgd. Based on flow projections prepared as part of the Facility Plan Update and updated with the most recent implementation schedule for the Joint Power Financing Authority's Nitrate Action Plan Projects, the treatment plant will not exceed an ADAM flow of 9 mgd until 2010, and will not exceed an ADAM flow of 11.6 mgd until 2017. The new outfall is planned to be completed by August 2009, and will have a capacity of 15 mgd to allow for future expansion of the WPCP.

Based on the engineer's cost estimate, the total eligible Project cost for Phase 1, including engineering allowances, is estimated to be \$40.8 million. The City has applied for the full estimated eligible SRF Loan amount of \$40.8 million for the Project. The City requests a 20-year repayment period, with the first SRF Loan repayment due one year after completion of construction of the Project.

The City provided a Draft Revenue Program on November 29, 2005, and supplemental documents dated April 6, 2007, to meet the SRF Financial Plan Requirements. Division staff approved the Draft Revenue Plan on April 26, 2007. The City submitted a certified Resolution No. 49-06 specifically dedicating water pollution control plant capacity fees, monthly sewer service fees, and trunkline capacity fees as a source of revenue for the repayment of this SRF Loan, and Resolution No. 48-06 establishing a Wastewater Capital Reserve Fund.

The City prepared an Environmental Impact Report (EIR) for the proposed Project. The EIR was distributed for public review and circulated through the State Clearinghouse (State Clearinghouse No. 2004022111) from January 31, 2005, through March 16, 2005. During the review period, the City received written comments from two State agencies, one tribe, one local agency, and one non-governmental organization, in addition to comments received during a July 23, 2005, public comment meeting. The City responded in writing to all comments.

On October 18, 2005, the City certified the EIR, approved the Project, and adopted a Mitigation and Monitoring Plan and a Statement of Overriding Considerations for the Project. The City filed a Notice of Determination with the Governor's Office of Planning and Research on October 20, 2005, and with the Butte County Clerk on October 24, 2005.

The following Project impacts will remain significant and unavoidable: (1) cumulative impacts on the Sacramento River from mercury; and (2) growth-inducement in the City resulting from the expansion of the WPCP. Per the EIR, the WPCP will not be able to remove all the mercury from the City's waste stream. Although the concentration of mercury is low, and the likelihood of distant transport is also low, the potential for incremental increase in mercury in the Delta is considered a significant impact. The City adopted a Statement of Overriding Considerations to substantiate its decision to approve the Project despite these impacts.

The City found that, despite the cumulative impact on the Sacramento River from mercury and growth inducement in the City, other considerations justify proceeding with the Project. The Project benefits outweigh the potentially unavoidable significant environmental effects associated with the Project, and these potentially unavoidable adverse impacts are an acceptable consequence of the Project because of the benefits it will produce.

State Water Board staff concurs that the Project will result in significant unavoidable impacts to (1) the Sacramento River from mercury, a cumulative impact; and (2) growth inducement in the City. Staff also agrees with the City's determination that fully mitigating these Project impacts is infeasible. State Water Board staff have determined that the specific economic, social, technological, and environmental benefits of the Project outweigh these unavoidable adverse environmental impacts

State Water Board staff have reviewed and considered the EIR and all applicable environmental documents, and have determined that the Project will not result in any additional significant adverse water quality impacts.

On June 6, 2006, State Water Board staff distributed the EIR to the following federally designated agencies: the U.S. Environmental Protection Agency (USEPA); the U.S. Army Corps of Engineers; U.S. Fish and Wildlife Service (USFWS); U.S. Department of Agriculture, Natural Resources Conservation Service; National Oceanic and Atmospheric Administration – National Marine Fisheries Service (NOAA Fisheries); and the Federal Emergency Management Agency. The federal review period ended on July 27, 2006.

Outfall construction, which will involve work in the Sacramento River, will occur as Phase 2 of the Project for which a separate Facilities Plan Approval and separate Environmental Clearance will be issued.

State Water Board staff found that the Project may adversely affect the valley elderberry longhorn beetle (*Desmocerus californicus dimorphus*), a federally threatened species. Staff also found the Project is not likely to adversely affect the federally threatened giant garter snake (*Thamnophis gigas*), the federally threatened bald eagle (*Haliaeetus leucocephalus*), and the federal candidate species western yellow-billed cuckoo (*Coccyzus americanus*).

On June 6, 2006, State Water Board staff sent a letter to USFWS requesting informal concurrence pursuant to Section 7 of the Federal Endangered Species Act for the Project. On September 19, 2006, State Water Board staff sent a letter to USEPA revising its original Project findings to “likely to adversely affect” the giant garter snake and “not likely to adversely affect” the valley elderberry longhorn beetle (VELB). In this letter, State Water Board staff also requested that USEPA initiate formal consultation with USFWS for the Project. On October 1, 2006, prior to USEPA requesting formal consultation, USFWS responded in writing and issued the Biological Opinion (BO). USFWS found that the proposed Project will: (1) adversely affect the giant garter snake, and (2) not be likely to adversely affect the VELB and the bald eagle. This BO covers both phases of the Project. State Water Board staff have determined that federal consultation has been sufficient, and will include the terms and conditions of the USFWS BO as special conditions of the SRF Loan Contract.

Final concurrence and a BO were received from USFWS on October 1, 2006. Final concurrence from NOAA Fisheries is not required at this time because it is only necessary for work that will occur under Phase 2.

The State Water Board’s Cultural Resources Officer (CRO) sent a “Request for Concurrence on Section 106 Compliance” with a finding of “no historic properties affected” to the State Historic Preservation Officer (SHPO) on June 8, 2006. The SHPO responded on July 21, 2006, with a request for: (1) additional investigation of the sub-surface area of potential effects for the new outfall, which is proposed to be constructed near the Sacramento River, and (2) a determination of eligibility to the National Register of Historic Places (NRHP) for the WPCP that was originally constructed in 1929. Per the SHPO’s request, the City conducted geoarchaeological investigations for the Project. The CRO sent additional information to the SHPO on August 2, 2007. On August 22, 2007, the SHPO concurred with the CRO’s determination that the WPCP was not eligible for the NRHP and that no historic properties would be affected by construction of the Project. This concurrence covers both phases of the Project, including Phase 1 that is addressed by this Preliminary Funding Commitment.

State Water Board staff compared the City’s information to published air quality standards to determine whether a conformity determination is required. No conformity determination is necessary. Therefore, staff submitted its analysis to USEPA for review and comment. No comments were received from USEPA on the staff analysis of air quality impacts.

The State Water Board staff will file a Notice of Determination with the Governor’s Office of Planning and Research following funding approval.

In accordance with the State Water Board’s *Policy for Implementing the State Revolving Fund for Construction of Wastewater Treatment Facilities* (Policy), adopted on February 16, 1995, and amended on July 17, 2007, projects on the adopted Priority List need State Water Board approval to receive a SRF Loan. A SRF Loan Commitment can be approved by the State Water Board after the Division of Financial Assistance (Division) has issued the Facilities Plan Approval. On September 17, 2007, the Division approved all documents above by issuing a Facilities Plan Approval (FPA) for the City’s Project. The City agreed in writing on September 19, 2007, with the Division’s FPA.

The City has certified that the water purveyor, California Service Water Company, is a signatory to the California Urban Water Conservation Council’s Memorandum of Understanding (MOU) regarding Urban Water Conservation in California, and the MOU covers at least 75 percent of the water connections within the applicant’s Project sewer service area.

The City has provided the Division with a schedule containing Project Milestones. These dates are included in the Division's FPA letter. In accordance with Section IX (J) of the SRF Policy, the Resolution includes the sunset date for the Preliminary Funding Commitment. The City must sign the SRF Loan Agreement by September 30, 2008, or the Preliminary Funding Commitment will expire.

## POLICY ISSUE

1. Should the State Water Board approve a SRF Preliminary Loan Commitment for the proposed Project, including a 20-year repayment period, with the first repayment due one year after completion of construction of the Project?
2. Should the State Water Board, in accordance with Section IX (J) of the Policy, condition this approval by withdrawing the SRF Preliminary Loan Commitment if the City does not sign the SRF Loan Agreement by September 30, 2008? Should the Division staff have the discretion to approve up to a 90-day extension for good cause without further action by the State Water Board?

## FISCAL IMPACT

(as of 8/27/07 (revised))

	SFY 2007-08	SFY 2008-09	SFY 2009-10	SFY 2010-11	SFY 2011-12
Beginning Balance:	\$409,493,441	\$323,318,971	\$312,879,180	\$363,302,182	\$491,812,126
Estimated Repayments	\$188,218,080	\$191,553,957	\$201,553,957	\$211,553,957	\$221,553,957
Debt Service on Revenue Bonds	(\$33,357,579)	(\$31,893,104)	(\$31,758,441)	(\$31,456,429)	(\$30,228,204)
Estimated Capitalization Grants	\$89,080,042	\$60,000,000	\$0	\$0	\$0
State G.O. Bond proceeds (less state admin. match)	\$76,000,000	\$0	\$0	\$0	\$0
Local Match Credits	\$18,197,085	\$14,060,222	\$5,539,832	\$4,166,750	\$4,166,750
Est. SMIF Interest:	\$21,588,476	\$17,000,000	\$12,000,000	\$8,000,000	\$2,000,000
Estimated Disbursements	(\$389,182,544)	(\$208,335,921)	(\$119,412,346)	(\$55,554,334)	(\$29,008,304)
<b>Subtotal</b>	<b>\$380,037,001</b>	<b>\$365,704,125</b>	<b>\$380,802,182</b>	<b>\$500,012,126</b>	<b>\$660,296,325</b>
Ventura County, 4680-110		(\$8,000,000)	(\$8,000,000)	(\$5,000,000)	
Tomales Village CSD, 4633-110	(\$249,030)	(\$27,670)			
Redding, City of, 4971-210	(\$5,000,000)				
Redding, City of, 4971-220	(\$5,400,000)	(\$8,200,000)	(\$4,000,000)		
Union Sanitary District, 5045-110	(\$1,044,000)	(\$1,296,000)			
Colusa, City of, 4438-110	(\$11,625,000)	(\$3,875,000)			
Chico Urban Area Powers Financing Agency, 4111-220*	(\$3,200,000)	(\$3,600,000)	(\$3,700,000)	(\$3,200,000)	(\$4,200,000)
Tahoe City Public Utilities District, 4779-110	(\$1,800,000)	(\$821,654)			
City of Chico, City of, 4997-110	(\$16,700,000)	(\$22,300,000)	(\$1,800,000)		
Inland Empire Utilities Agency, 4900-110	(\$11,700,000)	(\$4,704,621)			
<b>Balance</b>	<b>\$323,318,971</b>	<b>\$312,879,180</b>	<b>\$363,302,182</b>	<b>\$491,812,126</b>	<b>\$656,096,325</b>

\*Agency is requesting a total of \$38 million for years 2007-08 through 2016-17; \$4.5 million (2012-13), \$3.8 million (2013-14), \$3.3 million (2014-15), \$2.6 million (2015-16), and \$5.9 million (2016-17).

- Notes:
- Estimated Repayments include repayments from existing and future loans.
  - Estimated disbursements include disbursements remaining on executed loans and planned disbursements on projects with Preliminary Loan Commitments. Local Match credits are the anticipated funds that will be contributed for Local Match Loans included in "Estimated Disbursement"

## **REGIONAL WATER BOARD IMPACT**

The Central Valley Regional Water Quality Control Board (Regional Water Board) has prescribed Waste Discharge Requirements Order No. R5-2004-0073 for the WPCP to discharge nine (9) mgd to the Sacramento River. The City will submit its updated report of Waste Discharge Requirements for the proposed Project prior to issuance of Plans and Specification Approval by the Division. The proposed Project will ensure continued compliance with the WDR of the Regional Water Board.

## **STAFF RECOMMENDATION**

The State Water Board Should:

1. Adopt a resolution approving a SRF Preliminary Loan Commitment of \$40.8 million for the City's Project with a repayment period of 20 years, with the first repayment due one year after completion of construction of the Project; and
2. In accordance with the SRF Policy, condition this approval by withdrawing the SRF Preliminary Loan Commitment if the City does not sign the SRF Loan Agreement by September 30, 2008. Division staff should have the discretion to approve up to 90-day extension for good cause without further action by the State Water Board.

# DRAFT

## STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2007-

### CONSIDERATION OF A RESOLUTION APPROVING A STATE REVOLVING FUND (SRF) LOAN TO CITY OF CHICO (CITY) FOR CONSTRUCTION OF THE WATER POLLUTION CONTROL PLANT (WPCP) 12-MGD EXPANSION PROJECT – PHASE 1 (PROJECT); SRF LOAN PROJECT NO. C-06-4997-110

#### WHEREAS:

1. The State Water Resources Control Board (State Water Board), on February 16, 1995, adopted the "*Policy for Implementing the State Revolving Fund for Construction of Wastewater Treatment Facilities*," and amended it on July 17, 2007;
2. The State Water Board, on September 4, 2007, adopted the State Fiscal Year 2007/2008 SRF Loan Program Priority List which included the City's Project in Priority Class A;
3. The Division of Financial Assistance (Division) has approved the Facility Plan for the City's Project on September 17, 2007, and the City agreed with the approval on September 19, 2007;
4. The City provided a Draft Revenue Program on November 29, 2005, and supplemental documents dated April 6, 2007, to meet the SRF Financial Plan Requirements. Division staff approved the Draft Revenue Plan on April 26, 2007. The City submitted a certified Resolution No. 49-06 specifically dedicating water pollution control plant capacity fees, monthly sewer service fees, and trunkline capacity fees as a source of revenue for repayment of this SRF Loan, and Resolution No. 48-06 establishing a Wastewater Capital Reserve Fund;
5. The City prepared an Environmental Impact Report (EIR) for its proposed Project (SCH No. 2004022111);
6. On October 18, 2005, the City certified the EIR, approved the Project, and adopted a Mitigation and Monitoring Plan and a Statement of Overriding Considerations for the Project. The City filed a Notice of Determination with the Governor's Office of Planning and Research on October 20, 2005, and with the Butte County Clerk on October 24, 2005;
7. The City adopted a Statement of Overriding Considerations to substantiate its decision to approve the Project despite significant unavoidable impacts on the Sacramento River from mercury, and to growth inducement in the City resulting from the expansion of the Water Pollution Control Plant (WPCP);
8. The State Water Board finds that the following specific economic, social, technological, and environmental benefits of the Project outweigh the unavoidable adverse environmental impacts:
  - a. Approval of the Project will allow the City to implement its General Plan and provide for anticipated growth, including the provision of housing;
  - b. Expansion of the WPCP is necessary to avoid further nitrate contamination of groundwater caused by existing septic systems;

# DRAFT

- c. The Project will enable the City to continue to meet its NPDES permit requirements for discharge of effluent into the Sacramento River; and
  - d. The creation of wetland habitat in an area currently used as emergency storage ponds will provide long-term benefits for wildlife.
9. State Water Board staff have reviewed and considered the EIR and applicable environmental documents and have determined that the Project will not result in any additional significant adverse water quality impacts; and
10. The following Special Conditions are applicable to the Project:
- USFWS issued a Biological Opinion (BO) for the Project. The BO includes reasonable and prudent measures necessary and appropriate to minimize adverse Project effects on the giant garter snake. The City will have to comply with USFWS' non-discretionary terms and conditions, which implement the reasonable and prudent measures. The terms and conditions from USFWS will be included as special conditions in exhibit D of the City's SRF Loan contract and can also be found in the BO.

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Approves a SRF Preliminary Loan Commitment of \$40.8 million for the City's Project, with a repayment period of 20 years, and the first repayment due one year after completion of construction of the Project;
2. Includes a condition that this SRF Preliminary Loan Commitment will expire if the City does not sign the SRF Loan Agreement by September 30, 2008. The Division has the discretion to approve up to a 90-day extension for good cause, without further action by the State Water Board;
3. Directs the Division to allocate \$40.8 million consistent with the construction schedule and availability of funds; and
4. Directs the Division to include special conditions in the SRF Loan Agreement addressing the above-mentioned special conditions.

## CERTIFICATION

The undersigned, Acting Clerk to the Board, does hereby certify that the foregoing is a full, true, and correct copy of a resolution duly and regularly adopted at a meeting of the State Water Resources Control Board held on December 4, 2007.

---

Jeanine Townsend  
Acting Clerk to the Board